

STATEMENT OF  
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BEFORE THE  
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY  
COMMITTEE ON BANKING AND FINANCIAL SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

ON  
H.R. 2, HOUSING OPPORTUNITY  
AND RESPONSIBILITY ACT OF 1997

MARCH 11, 1997

Chairman Lazio and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss H.R. 2, Housing Opportunity and Responsibility Act of 1997, and HUD's oversight and management problems. In October 1995, I testified before your Subcommittee on two separate occasions in connection with H.R. 2406, United States Housing Act of 1995. Some of the matters I will discuss today will be similar to my October 1995 testimony.

Also, in contrast to the program policy provisions of H.R. 2, my testimony today will focus primarily on those provisions of H.R. 2 which will affect the performance and oversight of housing authorities and increase accountability in HUD's programs.

The Current Environment of Public Housing

Mr. Chairman, to begin with, I would just like to spend a few moments discussing the status of public housing today. I believe that it is important to see where we are now and where we should be heading.

There is little doubt about the importance of public housing to this Nation's low-income population, as nearly 1.3 million families call public housing their home. Over the past several years, about \$7 billion of taxpayers' dollars, on average, has been channeled into public housing each year, primarily in the form of operating and modernization subsidies and special purpose grants.

While public housing is successful in most localities,

where it is not successful, serious problems often exist. Through our audits and other reviews, we have reported numerous problems in the public housing program, the most serious occurring in some of the Nation's largest housing authorities located in large urban centers. Some of the problems we have identified include:

- Ineffective maintenance and modernization programs, including the lack of preventative maintenance programs;
- Deficient physical housing conditions;
- Units remaining vacant for excessive periods;
- Ineffective automated accounting systems and management controls;
- Weaknesses in procurement and contracting;
- Ineffective lease enforcement;
- Poor supervision of staff and management of other resources;
- Unskilled staff;
- Lack of continuity in management due to high turnover of key personnel; and
- Ineffective housing authority governing boards.

These problems have been exacerbated by the failure of some local governments to assume their fair share of responsibility for the oversight and effective operation of public housing in their jurisdictions. In addition, housing authorities have not done enough to establish cooperative working relationships with local nonprofit entities and governmental organizations, particularly local law enforcement agencies.

Other contributing factors adversely impacting housing authorities have been the dwindling resources available for public housing due to Federal budgetary constraints, along with HUD's continued downsizing and reorganization of its staff, which have diminished the capacity of the Department to monitor the operations of housing authorities and to assist them in addressing their problems.

Among the results of the conditions I just described have been some deteriorating and unsafe public housing properties, misuse of federal funds, rampant drug-related crime and violence at some public housing sites, welfare dependency of families, and generally unacceptable living environments for our low-income citizens.

While some housing authorities are experiencing problems in administering public housing, it is important to remember that many of these problems have been the result of various amendments to the United States Housing Act of 1937 over the past several decades, which have had the effect of concentrating the very poorest and neediest families in public housing, penalizing tenants who work, and serving as a disincentive for housing authorities to demolish their worst units. I won't discuss these statutory amendments today because the members of the Subcommittee are already familiar with them. I am, however, pleased to see that H.R. 2 includes provisions designed to remedy the adverse impacts caused by these amendments.

I might also add that the public housing program has been plagued over the years by extensive Federal regulatory and paperwork requirements. These requirements have caused housing authorities to focus on process-oriented tasks at the expense of their operating performance and the achievement of meaningful results. These burdensome requirements have also driven up the costs of operating public housing locally and have diverted scarce resources away from critical areas.

It is evident that a real need exists for bold, new authorizing legislation to address the current environment of public and assisted housing and HUD's limited capacity to administer these programs, as currently structured and operated. That is why these hearings and H.R. 2 are so important. Hopefully, this process will be the culmination of the public and assisted housing legislative reforms that have been long overdue.

#### **HUD's Efforts To Transform Public Housing**

I would be remiss if I left the Subcommittee with the impression that HUD is doing nothing to address the problems of public housing. The foundation for the transformation of public housing was established during former Secretary Cisneros' Administration, and surely will be reinforced and reinvigorated by Secretary Cuomo.

HUD is committed to demolishing 100,000 of the very worst public housing units in the country, those units long considered obsolete and dangerous--the so-called warehouses of the poor. This accelerated demolition effort began during the previous Administration and is expected to continue under the current Administration. In addition, through the HOPE VI program and public/private partnerships for the mixed-finance development of public housing, efforts are taking place on many fronts to revitalize and replace severely distressed public housing units. Large-scale obsolete buildings are now being replaced with smaller-scale, less-dense, mixed-income housing. In other cases, tenant-based rental assistance is being provided to families so that they may relocate to private housing.

HUD is also working to improve public housing management, particularly by putting into place new recovery strategies for troubled public housing authorities, including some of the larger, more seriously troubled housing authorities in the country. HUD has also taken steps to streamline its regulations and reduce burdensome paperwork requirements, although much more can be done in these areas.

Mr. Chairman, we believe that many of the provisions of H.R. 2 will facilitate HUD's transformation of public housing by providing increased flexibility to housing authorities, reducing burdensome administrative requirements, reforming the processes for funding public housing, and providing a firm statutory basis for continuing efforts to improve the livability of public housing and the general welfare of assisted low-income families.

#### **Success Will Not Come Easy**

Despite HUD's reforms and initiatives, we continue to be cautious. Funding for low-income housing will continue to come under pressure, as it competes with other priorities during this period of extreme budget austerity. Only so much can be done without adequate resources. Our expectations must not exceed our capacity to address the problems facing public housing today.

In addition, HUD does not have a very good track record when it comes to managing its programs. It has failed dismally in some cases. In fact, in 1994, the General Accounting Office (GAO) designated HUD as a "high-risk" area, the first cabinet level agency to be so-designated by

GAO. In subsequent testimony before Congress, GAO stated that HUD programs would continue to be a high risk in the foreseeable future.

My office has also expressed concern about the high-risk of HUD programs. As we have reported from time to time, material weaknesses in HUD's programs and controls are placing billions in subsidy funds at risk. Therefore, I believe that it is essential that legislation to reform the public and assisted housing programs provide for appropriate controls on the part of HUD and housing authorities to ensure full accountability for the billions in appropriated funds that these programs entail.

I believe that Secretary Cuomo is committed to addressing HUD's high-risk areas. Recently, the Secretary and his Principal staff convened at a special retreat at which time they established an integrated plan of action to address the Department's most significant vulnerabilities and risk areas. However, significant changes in HUD's authorizing legislation are essential if HUD is to be successful in its endeavors.

HUD must also address a number of major operating concerns if it is to achieve any meaningful degree of success in administering not only the public housing program but other programs as well. Among these concerns are the Department's extensive portfolio of programs and initiatives, unclear mission, resource problems, weaknesses in its automated accounting and financial management systems, and poor program monitoring and enforcement.

#### **Extensive Portfolio of HUD Programs and Limited Resource Capacity**

Areas that particularly concern me are HUD's extensive program workload and its limited staffing capacity. Something needs to give here, as HUD's program workload cannot continue to increase while its staffing is going down. While an organization can become more efficient with less staff through effective reengineering of its workload, a point is often reached where no more efficiencies can be squeezed out of the organization. In other words, the workload simply becomes overwhelming. In such cases, the work is either not done or done poorly by the organization. HUD may be reaching this point.

Since 1980, HUD staffing has dropped from 16,500 to

about 10,400--a reduction of nearly 37 percent. This downsizing will continue since the Department is now committed to reducing its staff even further--to 7,500 by the year 2000. While HUD's staff has been declining, its program workload has been increasing--in some cases, dramatically.

Two years ago, former Secretary Cisneros asked my office's views on terminating, consolidating and restructuring HUD programs. At the time, the Department was under intense pressure from the Senate Appropriations Committee to reduce its growing inventory of programs. Our subsequent review disclosed that HUD was administering about 240 discrete HUD programs and activities, some of which were created by the Department administratively rather than in response to statutory or Congressional mandates.

We are currently in the process of updating our list of discrete HUD programs and activities. Whether a reduction in the number of programs and activities has taken place remains to be seen; however, there is not much doubt that the number of programs and initiatives currently being undertaken by HUD are more than the Department can handle given the size of its staff and other resources.

HUD's portfolio of programs is far-reaching. To illustrate the varied nature of HUD's programs and activities, the Department is engaged in carrying out programs and initiatives relating to mortgage insurance, rental assistance, public housing modernization, family unification, drug elimination in public and assisted housing, educational opportunities/skills training/job creation (welfare-to-work) initiatives for assisted low-income adults and youths, business enterprises, youth sports, tenant opportunity initiatives, housing counseling, supportive services programs for the elderly and others, computer learning centers for use by assisted low-income families, regional outreach counseling for assisted households, economic development programs, empowerment zones, enterprise communities, neighborhood and community revitalization programs, programs to assist the homeless, fair housing and equal opportunity enforcement, tuition aid for certain economically distressed students, lead-based paint prevention, interstate land sales, manufactured home regulation, numerous demonstration programs, and the list goes on and on.

While many of HUD's programs are small dollar, categorical grant programs, these programs have high

administrative burdens and reach only a small proportion of the universe of eligible participants.

The point I'm trying to make by mentioning these program areas is simply that HUD was not established to carry out such a diverse role; nor does it currently have the capacity to do so. It is inconceivable to believe that HUD can provide adequate oversight for so many varied programs.

Many of the programs that I just mentioned are under the jurisdiction of the Office of the Assistant Secretary for Public and Indian Housing. Therefore, we fully support the block grant funding provisions of H.R. 2, along with its public housing deregulation aspects. We believe that these provisions will be less staff-intensive for HUD's public housing organization and enable it to deploy its staff in the most critical and highest-risk areas.

#### **Unclear and Questionable HUD Mission**

In addition to its impact on staff resources, HUD's large volume of programs and activities has created considerable confusion as to the Department's primary mission and objectives. For example, rather than concentrating on its basic mission of providing assistance to ensure that safe, decent, and affordable housing is being made available to eligible low-income families, HUD is attempting to be an all-inclusive agency for meeting most, if not all, the basic needs of such low-income families. This situation causes the Department to divert scarce resources away from its core mission.

It is also important to point out that the number of program areas alone do not necessarily give one a complete picture of HUD's wide-ranging reach. Rather, one needs to review the various eligible cost areas under each program to get a more comprehensive description of what HUD funds through its programs. For example, some programs entail numerous and diverse categories of costs that are eligible for funding under program regulations. Many of these cost areas bear little or no relationship to HUD's mission. Good examples of programs with widely diverse areas of cost eligibility are the Community Development Block Grant Program, Public and Assisted Housing Drug Elimination Grant Program, and public housing's modernization programs.

HUD is often viewed as an agency primarily involved in revitalizing our inner cities and communities. But that is a misnomer. Over 60 percent of HUD's proposed 1998 budget authority is for Section 8 contract amendments and renewals. However, in the case of Section 8 tenant-based assistance, we are dealing with what is essentially a welfare assistance program--assistance that is similar in some respects to the shelter allowances that are built into AFDC welfare assistance. By the year 2002, HUD will need over \$18 billion of budget authority just to renew all expiring Section 8 contracts. That's one big chunk of HUD's future budget. So Congress and the Administration need to take a hard look at HUD's programs and mission and determine just what kind of an agency HUD should be.

In view of the ever-changing direction of HUD's mission and program reach, we believe that there is an urgent need to more precisely define HUD's mission and to relate that mission to the Department's administrative capacity.

If HUD is to be held to a staff of 7,500 by the year 2000, then it should not be given responsibility for areas that exceed its agreed upon mission or are only remotely related to that mission. To do otherwise will only invite waste and mismanagement of taxpayers' dollars.

I am not implying that many of the things that HUD does are not important. They are important, particularly those programs and activities that attempt to bridge the gap between welfare dependency and work training and jobs. But there are other agencies that can and should carry out these initiatives. Other agencies like Labor, Education and HHS are probably better geared to administering these types of initiatives than HUD.

If HUD is to be successful in addressing the needs of low-income families and communities, it must establish better interagency working relationships with other Federal agencies engaged in areas supportive of HUD's activities. HUD cannot do the job alone. Congress can play a critical role in this area by funding joint interagency initiatives involving HUD and other agencies and by better defining the legislative jurisdiction of agencies.

My office has achieved great success in addressing crime and violence at public housing sites through our Operation Safe Program. However, we have accomplished this by forging close working relationships with other law enforcement agencies--Federal, State, and local.



Interagency coordination and cooperation can be successful, and our Operation Safe Home program has demonstrated this point time and time again.

### **Weaknesses in Automated Systems**

HUD does not have effective, integrated, automated accounting and financial management systems that can be relied upon to provide timely, accurate, and relevant financial information and reports. Without relevant program data, HUD cannot ensure proper financial accountability in its programs and cannot readily monitor what is routinely occurring in its programs. While some progress is being made in improving the effectiveness of its automated systems, the pace has been slow.

We are heartened that Secretary Cuomo has made implementation of integrated financial systems a top priority for HUD, and that he has already put forward a broad plan for achieving that objective.

### **Program Monitoring and Enforcement Concerns**

HUD's capacity to effectively monitor housing authorities and enforce program regulatory and contractual requirements is contingent to a large degree on its available staff resources, which as I've previously stated, are limited. There are about 3,300 public housing authorities of varying sizes, which differ as to the extent and degree of their problems. Generally, HUD applies a risk-based approach to monitoring housing authorities. Therefore, not every housing authority receives the same degree of monitoring or technical assistance from HUD.

HUD also relies on non-federal audit reports as a means of monitoring the operations of housing authorities. However, many of these reports have proven to be of very little use to HUD, particularly in disclosing management problems and contractual violations. We are currently cooperating with HUD's Office of the Assistant Secretary for Public and Indian Housing to develop ways to enhance the effectiveness of non-federal audit reports and improve their usefulness as a HUD-monitoring tool.

From an internal standpoint, HUD uses its Public Housing Management Assessment Program (PHMAP) to identify how well housing authorities are performing. PHMAP has been

in existence since 1992, and was developed by HUD in response to section 502 of the National Affordable Housing Act of 1990, which amended Section 6(j) of the United States Housing Act of 1937. Essentially, Section 502 required HUD to develop indicators to assess the management performance of public housing authorities.

HUD recently revised PHMAP in a new interim rule published in the Federal Register on December 30, 1996. The new rule reduces the number of performance indicators from 12 to 8.

The problem with PHMAP is that it's an incomplete system. It does not provide an all-inclusive and encompassing view of a housing authority's operations, and it's somewhat process-oriented. So what can happen under PHMAP is that a housing authority can receive a standard (or even high-performing) rating under PHMAP, yet its tenants may be residing in less than decent or deteriorating housing. The most important responsibility of housing authorities is to ensure that their residents are provided with safe and decent living conditions; yet PHMAP fails to measure the performance of housing authorities in this regard.

PHMAP performance is also difficult to confirm. As a result, the potential reliability of assigned ratings under the system is suspect. Also, in connection with our audit of HUD's financial statements about two years ago, we reviewed six HUD Field Offices and found that these offices performed confirmatory reviews on only 29 of 762 PHMAP certifications submitted by housing authorities. At one of our test offices, a HUD contractor performed a confirmatory review of one large troubled housing authority's PHMAP submission and found that the authority's PHMAP score was overstated by approximately 35 points or 50 percent.

In recognition of its limited capacity to perform on-site confirmatory reviews of PHMAP certifications, HUD, in May 1995, expanded its public housing audit process to include verification of PHMAP submissions during regularly scheduled audits of housing authorities by non-federal auditors. Although this is a step in the right direction, it still has not resolved the problem of the unreliability of PHMAP submissions. HUD needs to hold some kind of a forum for the non-federal audit community to ensure they understand how the PHMAP system is supposed to function and what discrepancies need to be brought to the attention of the Department, and in what format.

GAO issued a report on HUD's PHMAP process in January of this year and, among other things, disclosed that HUD's Field Offices were not systematically complying with PHMAP's statutory and regulatory follow-up requirements to ensure that housing authorities corrected problems disclosed through PHMAP. In this regard, housing authorities were not always operating under required memoranda of agreement with HUD to correct their management deficiencies.

So, as you can see, there are some fundamental problems with PHMAP. In and of itself, we do not believe that PHMAP is an adequate tool for monitoring housing authorities.

Of particular importance is the need to develop results-oriented performance standards for public housing and to institute a proactive program for enforcing those standards. We believe that the study required in Title V of the proposed H.R. 2 should, among other things, focus on developing a means of assessing the annual progress of housing authorities in addressing unsatisfactory living conditions at their developments, including, but not limited to, the poor quality of their housing. The study should take into account the need to perform annual assessments of housing authorities' housing stock to determine its condition and repair and rehabilitation needs.

It would also be helpful to develop measures of housing authority efficiency. In other words, determine what housing authorities are able to accomplish with the resources they have, and to do some comparative analyses among authorities. The poorly performing housing authorities need to learn from the well-performing authorities.

In addition, the study called for by Title V should review the feasibility of developing a method for assessing and reporting on the performance and condition of individual public housing developments. Although a particular housing authority may be classified as troubled under the current PHMAP system, this does not mean that all its housing developments are troubled. Some may be troubled, while others may be in fine shape. HUD's monitoring needs to focus more on individual public housing developments and their problems and less on the overall organization of housing authorities. Along these lines, the Title V study should explore the potential of developing an asset management approach to dealing with troubled public housing, whereby individual developments are assigned an operating and capital improvement budget as well as a strategic plan,

and are then placed under qualified private management professionals.

It should also be noted that HUD has developed a program similar to PHMAP to assess housing authorities' performance under the Section 8 tenant-based rental assistance program called the Section 8 Management Assessment Program (SEMAP). However, SEMAP has not yet been implemented, so we have no means of gauging its success at this time. Hopefully, the study called for by Title V will review SEMAP and see how it fits into HUD's monitoring process.

I would now like to spend a few moments discussing HUD enforcement in the public housing program, as I believe that monitoring and enforcement go hand in hand. Generally, HUD has taken the position that public housing operating subsidy is a form of entitlement and, therefore, is not conducive to offsetting or withholding mechanisms, which are often the most feasible methods of addressing ineligible expenditures incurred by fund recipients. As a result, this leaves HUD with few options when housing authorities misspend their operating funds. Although litigation is an option in the event of large sums of misspent funds, this requires coordination with the Department of Justice, and is often a costly process. There are similar problems with modernization funding, which are formula-based; however, HUD has more flexibility in these programs to condition or recover funds.

In any event, if our audits are any indication, we do not believe that HUD has taken advantage of the enforcement authority it does have in the public housing area. Although we do not have any comprehensive statistical data on HUD's enforcement actions in the public housing area, our audit process does not indicate that HUD has moved aggressively to sanction poor performing housing authorities or recover misspent funds. Oftentimes, HUD forgives housing authorities for audited amounts due the Department, or attempts to justify why the sums should not be recovered.

We support the provision in H.R. 2 which permits the Secretary to redirect or withhold from the unit of general local government any amounts allocated to it under the Community Development Block Grant program where it is determined that the local government has substantially contributed to the troubled status of its housing authority. As I pointed out earlier in my testimony, local governments have, in many cases, abrogated their responsibilities to

ensure the successful operation of public housing in their jurisdictions. It is time to put localities on notice that they must assume some responsibility for their local public housing.

With respect to housing authority takeovers, HUD, compared to prior years, has moved more aggressively in recent years to replace local public housing management through intervention strategies such as administrative takeovers and receiverships, particularly in the case of large, seriously troubled housing authorities. Washington D.C., Chester, PA; Kansas City; Chicago; Detroit; Springfield, IL; New Orleans; and San Francisco have been subject to either receivership or HUD administrative actions of one kind or another. However, these actions came after the authorities were permitted to be mismanaged for many years, even decades in some cases. Moreover, the jury is still out as to the eventual and long-term success of these initiatives.

We are pleased to see that Title V continues and enhances the statutory powers of the Secretary to take over troubled housing authorities. However, we also support the Secretary's call for providing HUD with the additional authority to choose between petitioning for a judicial receiver and imposing an administrative receiver. Due to the varying circumstances of each housing authority and HUD's precarious staffing situation, we believe that the Secretary should have as many options as possible in dealing with troubled housing authorities.

#### **Housing Foundation and Accreditation Board**

Finally, Mr. Chairman, I would like to comment on H.R. 2's proposed establishment of a Housing Foundation and Accreditation Board.

There seems to be a potential conflict within Title V. On the one hand, Title V calls for a comprehensive review of HUD's public and assisted housing monitoring and auditing processes, including PHMAP, for the purpose of assessing alternative processes for evaluating the performance of public housing authorities. On the other hand, Title V mandates the establishment of the Housing Foundation and Accreditation Board and assigns it the responsibility of reviewing and accrediting such agencies, using a system other than PHMAP. It would seem that the feasibility of establishing such a board, and determining its functions,

should be within the scope of the study called for under Title V.

It is not certain if an accreditation process will work in public housing. I note that the Nation's hospital accreditation process--which has been held up as a model--has recently come under attack as being significantly flawed due to lax accreditation standards and poor enforcement of such standards.

It is also unclear in Title V what role HUD will have, if any, in monitoring and assisting public housing authorities. Will HUD have authority to perform routine monitoring and intervene in housing authority management when the need arises? What power will HUD have to take corrective action in the event of any mismanagement that takes place during the time between accreditation reviews or upon completion of accreditation reviews?

We are further concerned about the Board's makeup. As many as four of the 12 members of the Board can be Executive Directors of public housing authorities. However, because of the public housing expertise these individuals would possess, they would be expected to exert considerable influence over the entire Board. Independence and objectivity of the accreditation process might be comprised, if not actually, then certainly from a public perception standpoint.

The Board could also become a parallel and competing organization with HUD, potentially resulting in turf battles and finger-pointing.

Perhaps most importantly, we need to consider changes in HUD's attitude toward public housing performance measurement since the time the proposal for a Housing Accreditation Board was first put forth. Secretary Cuomo's public commitment to an independent, objective, and meaningful rating system could mean that resort to the difficult and time-consuming process of setting up an Accreditation Board may no longer be necessary.

Again, I suggest that the Subcommittee may wish to explore the feasibility of establishing such a Board as part of the study called for in Title V, rather than statutorily mandating that the Board be established without further review.

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Mr. Chairman, as you and members of the Subcommittee can see, public housing is at a crossroads today. We cannot afford to continue to throw precious taxpayers' dollars fighting the same old problems that plague public housing without first addressing the root causes of these problems and without improving HUD's capacity to manage its programs. We need to fundamentally change the way public housing operates and how we provide housing assistance to low-income families. We also need to rethink HUD's role in this changing environment.

Mr. Chairman, over the past several years, HUD has been like an animal caught in a net. The more it struggles to get out of its predicament, the more it gets entangled. The time has come for all of us to work together to help HUD get untangled. That is why legislative reforms like H.R. 2 are so important.